

Message Text

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PAGE 01 PEKING 01458 260834Z

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TO USMISSION NATO

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AMCONSUL HONG KONG

C O N F I D E N T I A L PEKING 1458

E.O. 11652: GDS

TAGS: ECON CH NATO

SUBJECT: ECONADS: ECONOMIC SITUATION IN PRC

REF: A. USNATO 4474 B. HONG KONG 8646 C. USNATO 4147

1. USLO HAS REFRAINED FROM COMMENTING ON THE DRAFT REPORT FORWARDED IN REF C PARTLY BECAUSE WE BELIEVE REF B PROVIDED AN EXCELLENT CRITIQUE WITH WHICH WE ARE LARGELY IN AGREEMENT, BUT ALSO BECAUSE OUR INFORMATION HERE IS MORE LIMITED THAN AVAILABLE IN HONG KONG OR WASHINGTON. NEVERTHELESS, WE OFFER THE FOLLOWING COMMENTS, WHICH MAY BE HELPFUL TO USDEL AS IT PREPARES FOR ECONADS EARLY SEPTEMBER MEETING.

2. WE AGREE THAT THE FOREIGN TRADE PORTION OF THE NATO DRAFT IS GENERALLY GOOD, WITH THE EXCEPTION OF THE GOLD AND FOREIGN EXCHANGE RESERVE ESTIMATE. ON THAT SCORE, WE HAVE REASON TO BELIEVE THAT HONG KONG'S ANALYSIS (PARA 5 REF B) IS VERY CLOSE TO THE MARK. WE WOULD
CONFIDENTIAL

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PAGE 02 PEKING 01458 260834Z

ESTIMATE CURRENT PRC RESERVES AT SLIGHTLY IN EXCESS OF

DOLS 3 BILLION.

3. ON AGRICULTURE, WE ALSO FEEL THAT IT IS NOT ACCURATE TO SAY THAT THE PRC FOOD BALANCE IS MAINTAINED IN "PRECARIOUS EQUILIBRIUM APPARENTLY BY GROWING IMPORTS OF GRAIN". EVEN AT 10 MILLION TONS, GRAIN IMPORTS REPRESENT A SMALL PERCENTAGE OF TOTAL CONSUMPTION. NEVERTHELESS, THE GRAIN PRODUCTION SITUATION IS NOT PARTICULARLY GOOD. PER CAPITA OUTPUT OF GRAIN PROBABLY HAS NOT INCREASED, INDEED MAY HAVE DECLINED SLIGHTLY OVER THE PAST FIFTEEN YEARS, AND THE CHINESE ARE TACITLY ACKNOWLEDGING THE PROBLEM THROUGH THEIR RISING PURCHASES OF GRAIN FROM ABROAD AND DECISIONS TO IMPORT THIRTEEN VERY LARGE FERTILIZER COMPLEXES. THE LATTER WILL SUBSTANTIALLY INCREASE FERTILIZER AVAILABILITY WITHIN THE NEXT FOUR YEARS AND WE ASSUME THAT THIS, PLUS CONTINUATION OF OTHER AGRICULTURAL IMPROVEMENT PROGRAMS, WILL LEAD TO INCREASES IN PER-CAPITA GRAIN OUTPUT BY THE END OF THE DECADE.

4. IN GENERAL, WE EXPECT CONTINUED RAPID EXPANSION OF PRC TRADE, BASED IN PART ON THE SIGNIFICANT POTENTIAL FOR INCREASED EXPORT EARNINGS FROM PETROLEUM (WE AGREE THAT BY 1980 THE PRC WILL BE PRODUCING WELL IN EXCESS OF 100 MILLION TONS). MOREOVER, PRC GOLD AND HARD CURRENCY RESERVES AND ANTICIPATED EXPORT EARNINGS COULD SUPPORT A MUCH HIGHER LEVEL OF IMPORT FINANCING THAN THE CHINESE HAVE UTILIZED SO FAR, SHOULD THEY WISH TO MOVE FURTHER IN THIS DIRECTION. AT THE SAME TIME, WE HAVE PERCEIVED A RECENT LULL IN NEGOTIATIONS FOR NEW PLANTS AND EQUIPMENT WHICH WE CANNOT FULLY EXPLAIN. IT MAY WELL BE TIED TO THE CURRENT POLITICAL CAMPAIGN, IN WHICH OVER-RELIANCE ON IMPORTS OF FOREIGN GOODS AND TECHNOLOGY HAS BEEN CRITICIZED, BUT THERE ARE OTHER POSSIBLE EXPLANATIONS. IN ANY CASE, WE THINK THE LONG TERM TREND IN CHINA'S FOREIGN TRADE WILL BE UPWARD, WITH A CONSIDERABLY SHARPER RATE OF ANNUAL INCREASE THAN IN THE YEARS PRIOR TO 1973.

5. CONCERNING THE EFFECTS OF THE POLITICAL CAMPAIGN ON INDUSTRIAL PRODUCTION, THERE IS NOW AMPLE EVIDENCE THAT NATIONAL FIRST SIX MONTHS' TARGETS WERE NOT MET THIS YEAR
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 PEKING 01458 260834Z

BECAUSE OF THE CAMPAIGN AND THAT PEKING IS WORRIED ABOUT THE SITUATION. THIS HAS LED TO RENEWED AND STRENGTHENED EFFORTS TO PROMOTE PRODUCTION AND DAMPEN THE DISRUPTIVE ASPECTS OF THE CAMPAIGN. WE EXPECT THIS POLICY TO PERSIST AT LEAST IN THE SHORT RUN, BUT HAVING REVIVED THE FACTIONALISM OF THE CULTURAL REVOLUTION PERIOD IN SOME AREAS, THERE REMAINS SOME QUESTION ABOUT THE LEADERSHIP'S ABILITY TO BE FULLY SUCCESSFUL IN THIS REGARD.

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